

February 27, 2003

Atty. MARINA C. BUGAYONG
Director, Regulatory Operation Services
Energy Regulatory Commission
Pacific Center Building
San Miguel Avenue, Pasig City

Re: ***ERC's Request for Comments on the Guidelines for Distinguishing between Transmission and Subtransmission Assets (letter from ERC dated January 29, 2003)***

Dear Atty. Bugayong:

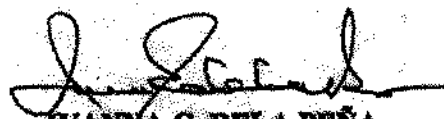
We appreciate the opportunity you have given us to provide our inputs and comments on prospective standards for the classification of transmission and subtransmission assets. We believe that setting the boundary between transmission and subtransmission assets at 69-kV, as indicated in your letter of January 29, 2003, may not be appropriate for the following reasons:

1. A boundary purely set by voltage level will be inconsistent with Rule 6, Section 4 of the Implementing Rules and Regulations (IRR) of RA 9136. The said provision already defines "technical and functional criteria to be considered in distinguishing transmission assets from Subtransmission Assets". Such criteria were set after extensive public consultations conducted during the drafting of the IRR, taking into account the inputs of many stakeholders in the industry. The same criteria, which were based on US Federal Energy Regulatory Commission (FERC) Order No. 888, took advantage of the experience of other jurisdictions that went through the same exercise of defining boundaries between transmission and distribution assets.
2. The proposed voltage level boundary does not recognize the established transmission voltages used in the various grids of NPC. Section 7 of RA 9136 already recognizes that NPC has different voltage standards among its operating regions. The prevailing standards in Luzon and Mindanao, 230-kV and 138-kV, respectively, are already higher than the 69-kV boundary being considered. Also, NPC itself has been adopting increasingly higher voltage standards for its transmission operations, after determining that doing so carries many technical and economic benefits. A uniform 69-kV boundary between transmission and subtransmission does not consider the above factors.

3. The voltage level boundary being proposed does not consider the subtransmission asset disposal process that NPC is currently undertaking. Section 8 of RA 9136 mandates NPC to segregate and dispose of its subtransmission facilities to qualified distributors. In fact, NPC and Meralco are already into discussions on the disposal/purchase of these facilities, which include those with operating voltages higher than 69-kV. With the two-year deadline for the disposal process fast approaching, setting a transmission-subtransmission asset boundary at 69-kV will confuse and complicate this disposal process.

We are strongly suggesting that the Commission utilize the technical and functional criteria enumerated in Rule 6, Section 4 of the IRR of RA 9136 as a starting point for developing guidelines on distinguishing between transmission and subtransmission assets. We look forward to working with the Commission and fellow industry participants in the finalization of these Guidelines.

Very truly yours,



IVANNA G. DELA PEÑA
Sr. Asst. Vice President and
Head of Utility Economics

